

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

September 21, 1999

The Capital Projects and Bond Oversight Committee met on Tuesday, September 21, 1999, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Chief Justice Joseph Lambert; Cicely Jaracz Lambert and Nick Schwendeman, Administrative Office of the Courts; Commissioner Bob Arnold, Department for Local Government; Tom Denton and Dr. Dewey Yeatts, Murray State University; Ken Clevidence and Dall Clark, University of Kentucky; Camille Bathurst, Michael Denney, and Sue Johnson, Kentucky Lottery Corporation; Bill Hintze, Governor's Office for Policy and Management; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Tom Howard, Office of Financial Management and Economic Analysis; and Marilyn Eaton-Thomas, Kentucky Infrastructure Authority.

Legislative Guest: Representative Jim Bruce.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lola Williamson Lyle, and Shawn Bowen.

Senator Buford made a motion to approve the minutes of the August 17, 1999 meeting as submitted. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon recognized Representative Jim Bruce. He also recognized Ms. Lola Williamson Lyle, a new Committee staff member, and Senator Bob Jackson, who was recently selected by the readers of state newspapers and Leadership Kentucky, Inc., as one of forty "Kentucky Leaders for the New Century."

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for July 1999, and correspondence from Finance Secretary John McCarty and Department of Parks Commissioner Kenny Rapier.

Chairman Haydon said in February of this year, the Committee approved a request by the Water Resource Development Commission (WRDC) for a \$753,000 grant from the Kentucky Infrastructure Authority (KIA) to complete a statewide program of water infrastructure planning. The Committee's approval of the request was tied to the WRDC meeting several conditions. Chairman Haydon said he asked Local Government Commissioner Bob Arnold, who serves as the Chair of the WRDC, to brief the Committee today on how the WRDC has addressed those conditions.

Commissioner Arnold said the requirements and conditions of the KIA grant have been met, and he has corresponded with the Committee and KIA concerning those conditions. He said, as he understood it, there was one remaining question as to how the WRDC has interacted with local planning agencies. He said the Area Development Districts (ADDs), pursuant to a contract with the WRDC, have held public hearings throughout the districts and have met with local regional planning committees. Commissioner Arnold said all of the necessary information on water and sewer systems has been gathered. The WRDC is now completing a report based on the information gathered by the ADDs, which should be delivered to the Governor by October 15. He reiterated that one of the Governor's top priorities is the availability of potable water for everyone by 2020.

In response to a question from Representative Damron, Commissioner Arnold said the WRDC is looking at the availability and sources of water in the Kentucky River Basin, including deep mine shafts or wells, raising the crest gates upon existing dams, and creating new impoundments. Commissioner Arnold said there is a sufficient supply of water throughout the state, but the problem is the location of the water and the ability to retain it when there is a drought. He said the WRDC has contracted with the Kentucky Geological Survey to develop a ground water atlas to better determine what water is available.

Representative Damron asked if the WRDC will have information on the projected cost of raising dam levels on the Kentucky River to impound more water. Commissioner Arnold said they will have such information available by January of 2000.

Representative Damron said he appreciated the WRDC's efforts; he asked Commissioner Arnold to follow-up with him and Senator Buford, since the WRDC plan will significantly effect their legislative districts.

Representative Marcotte asked what kind of priority system will be utilized for the water infrastructure plan once funding for the program becomes available. Commissioner Arnold said the WRDC's priorities will be determined by the legislature and by the Governor; it will also be dependent upon plans local communities have to supply water to their customers, the need for water, and the available sources of water.

Chairman Haydon thanked Commissioner Arnold, and invited the Commissioner to appear before the Committee again once the WRDC's plan is finalized.

Chairman Haydon said questions were raised at the July Committee meeting regarding court facilities construction projects, and he introduced Chief Justice Joseph E. Lambert, Kentucky Supreme Court, to discuss questions raised.

Chief Justice Lambert introduced Ms. Cicely Jaracz Lambert, Director, Administrative Office of the Courts (AOC); and Mr. Nick Schwendeman, General Manager for Facilities, AOC. Chief Justice Lambert said the current process for constructing court facilities has been in place for 20 years, but only since 1996 have a substantial number of court facilities construction projects been authorized and funded. Chief Justice Lambert said requests for additional court projects are pending from 39 counties across the state; the majority of these requests are from smaller counties since projects in the larger counties have already been completed or are underway.

Chief Justice Lambert discussed problems he and his staff have identified in the way court facilities are constructed. Those problems include: substantial and in some cases, excessive construction costs; inadequate early control of construction projects by AOC; duplication of services because standards promulgated by the National Center for State Courts (NCSC) fail to take into account populations of smaller counties; and minimal ability to control project construction costs since the court projects are owned by the county. Chief Justice Lambert noted that currently AOC is not a party to the various financing, design, and construction contracts local governments enter into in order to build an authorized facility; the current AOC role is that of a tenant only. He said the Court of Justice needs to be more involved at an early stage of the court construction process and needs to take on a greater supervisory role. Chief Justice Lambert said the Court of Justice is reviewing whether new rules or statutes are needed, and he assured the Committee that AOC is serious about controlling construction costs for the court facilities construction projects.

Ms. Lambert said the process of constructing court projects differs from that of Executive Branch projects because court projects are a partnership between state and local units of government. The counties or cities currently select the architect, the financial agent, the construction manager (if applicable), bid the construction and, arrange the financing; AOC has no say in any of these procedures. Ms. Lambert said the 1996

Session of the General Assembly mandated that all new court facility construction and major renovation projects must comply with NCSC standards, and AOC publishes guidelines that closely mirror these standards. In return for providing space, AOC pays a use allowance and an operating expense allowance. The use allowance is based on the court's proportionate share of principal and interest, not to exceed 8% of the capital cost, or if there is no debt, 4% annually of the original capital cost. The operating expense allowances are based on actual costs; they are reviewed at the end of the fiscal year, and AOC makes an adjustment the following year for any over or under payment.

Mr. Schwendeman then reviewed the process used to develop the 1998-2004 Judicial Branch Capital Plan. He said the process began with a revision of the "Guidelines for Kentucky Court Facilities" which is published by the AOC Facilities Unit. Letters were sent to counties that had not had a court project in the past 10 years, or counties with courthouses that AOC determined needed additional space, soliciting project proposals. As plans were received, the staff architect and other facilities personnel met with the architects, and in some cases, the county and local officials, to review the plans, which are to include an analysis of the space program, proposed construction costs, site costs, architectural/engineering fees, financing fees and other project-related costs.

Mr. Schwendeman said current court construction projects which will need additional funding authorization during the 2000 Session include Boone, Christian, Harlan, and Harrison Counties and possibly Warren County. He said additional funds will be needed because of changes in scope, failure to accurately assess project needs, and/or changes in county administrations which prompted changes in the projects.

Mr. Schwendeman said authorized court facility construction projects in Bell, Lyon, and Bourbon Counties may require allocations from the Court Facility Use Allowance Contingency Fund. (This Fund, authorized in the 1998-2000 budget, permits AOC to authorize and fund cost overruns on court projects, not to exceed 15%.) He said in Bell County, there are concerns that the current architect's estimated construction costs are too low and funds will be needed once the project is bid. For the Lyon County project, Mr. Schwendeman said a change in financing required a debt service reserve not originally budgeted and increased issuance costs. In addition, the project costs were driven upwards by an uncompetitive bid climate. He said the Bourbon County Court project was initially proposed as a renovation to the old jail for District Court and the Circuit Clerk, but he and former Chief Justice Robert F. Stephens met with the county and told them the facility was not acceptable and the needs of the entire court system needed to be included in the authorized project. The current plan is for a new facility and the architect is now preparing bid documents. Mr. Schwendeman predicted the project will need a 15% contingency after bids are received.

He then outlined changes the Court of Justice is considering to improve the court facilities construction program: 1) perform a comprehensive assessment of the needs counties have for court facilities; 2) using NCSC expertise, conduct a caseload and space program analysis for each project prior to submitting a request to the General Assembly for funding; 3) work with consultants and architects/engineers, financial agents, and attorneys, as well as the NCSC, to create stringent new guidelines for designing, constructing, and financing court facilities; 4) draft the necessary changes to govern the way projects are presented for authorization, designed, funded and ultimately constructed; and 5) broaden and strengthen the role of the Court Facilities Standards Committee, to include review of proposed projects before General Assembly authorization and funding.

Mr. Schwendeman then expounded on the proposed changes. He said as part of the planning process, AOC would conduct a detailed analysis of all court space beginning with counties that have not had a major capital project since 1980. There would be a general assessment of space adequacy including photographs, CAD drawings, and space allocations. In addition, AOC would contract with the NCSC to develop a feasibility study of space program requirements, based on staffing and trends in population and caseloads. AOC would use preliminary assessments to select projects for recommended funding, request local government commitment and support of the project, and review the county's financial condition. With assistance from the Department for Local Government, AOC would formalize an application process for other potential building occupants (either county offices or other state agencies) to obtain their commitment to fund their share of the project.

Mr. Schwendeman said relative to project financing, the Court of Justice is considering the following: including language in the revised guidelines whereby the counties will advertise for architectural and financial agent services (AOC would have the right to approve cost and contract); developing a standard format for financial advisors to include in financing plans; limiting bond terms to 20 years, with exceptions only if approved by the Court Facilities Standards Committee and authorized by the Chief Justice; working with counties and financial agents to establish bond sale dates, capitalized interest periods, review debt service reserve and construction earning accounts, and assist in increasing bond ratings; and requiring counties to participate in the cost differentials between renovation of historic property and new construction that are over and above the recommended standards.

Changes being considered in the design and construction process for court facilities include: establishing criteria for evaluating the feasibility and practicality of contracting and construction methods, regularly attending project meetings and on-site inspections, periodically reviewing the project budget and schedule, establishing a

comprehensive project management system to track the projects through all phases, and implementing a procedure to oversee and approve project change orders.

Other suggestions for improving the court facilities construction projects presented by Mr. Schwendeman are: working with NCSC to develop new criteria/standards for court projects in smaller, rural counties; establishing uniform contracts to assist counties with the selection of professional services; AOC evaluation of site selection and land purchase; establishing specifications for interior and exterior finishes, structural/mechanical systems, and fixed and moveable furniture and equipment; developing a formalized agreement of the local government's commitment to the project; reviewing current operating costs (e.g., compared to the service provided to eventually determine if it is feasible to pay on a cost per square foot basis, using facility management services where appropriate, recommending standards to maintenance contracts, and providing for reduced payments when facilities are not maintained to an acceptable standard); providing a clear definition and understanding of space assigned to and paid for by AOC; and including AOC as a party to the acceptance of the project as substantially complete and defining when AOC payments begin.

Senator Jackson thanked Chief Justice Lambert for attending the meeting. He asked if the Court of Justice has considered making future court projects state facilities in order to better manage construction costs since as he noted, they really are state facilities. Mr. Schwendeman said this is an issue they have discussed and one disadvantage of that approach would be an increase in the state's bonded indebtedness. He suggested AOC would be able to better control project costs if it strengthened and mandated its guidelines and became a party to the various contractual agreements relating to court projects.

Senator Jackson said he appreciated the Chief Justice and AOC working with the legislature on this issue, but he said he believes these court facilities should be considered state buildings. Otherwise, control will be difficult and continue to be extremely frustrating for the Chief Justice and AOC.

Mr. Schwendeman said as AOC exercises more control over the court facilities construction projects, establishes rural court facility construction guidelines, and becomes more of a party to the contracts, they will have a greater level of project control.

In response to a question from Senator Jackson, Mr. Schwendeman said AOC could look into the possibility of making court facilities construction projects state projects. Senator Jackson said he thought the single largest problem facing the courts construction process is the lack of project control by AOC.

Representative Marcotte asked if some of the court facility construction projects proposed for funding in the 2000 Session will have to be delayed. Mr. Schwendeman said

there are 39 court projects in the AOC Six Year Capital Plan, 25 of which will be proposed for funding in the 2000 Session; the other 14 will be proposed for funding in the 2002 Regular Session.

Representative Damron thanked the Chief Justice for attending the meeting. He said he thought the court facilities projects should not be considered state projects because a lot of projects are mixtures of local uses, as well as state court uses. He said although these projects are not funded with state bonds, from a budgetary standpoint they are probably still viewed as part of the state's annual debt service. He noted that with the passage of legislation being drafted as Bill Request 96, which is the local government procurement act that will be prefiled and presented to the Committee within the next couple of months, some of the controls on court construction will be tightened.

Representative Damron said AOC needs to do an unbiased needs-based analysis of current court system needs. He also said he was pleased to see AOC moving away from using National Center for State Courts standards as mandates, and to instead use them as guidelines.

Representative Damron said cost overruns on court facilities should be handled in the same manner as other capital projects, with a recommendation by the budget entity head and review by the Committee prior to final authorization. He also said extending the bond term of a construction project beyond 20 years should require legislative authorization, either through the Interim Joint Appropriations and Revenue Committee and/or through the Capital Projects and Bond Oversight Committee.

Chairman Haydon next introduced Mr. Tom Denton, Vice President for Administrative Services, Murray State University (MuSU), to discuss an unbudgeted capital project to renovate the MuSU Development and Alumni Affairs Building.

Mr. Denton introduced Dr. Dewey Yeatts, Associate Vice President for Facilities Management, MuSU. He said the University acquired the building (12,000 sq. ft.) in 1990 at a cost of \$100,000. This renovation project was initially under the \$400,000 statutory threshold of a capital project, but as the architect began working with the Department of Housing, Buildings, and Construction, it was learned that the project would require elevators and fire suppression equipment including sprinklers - items not included in the original estimate. The scope was revised and the renovation project is now estimated to cost \$750,000. The MuSU Alumni Association has raised \$479,000 for the project, and the remaining cost (\$271,000) will be covered by MuSU with restricted funds. Mr. Denton said the MuSU Board of Regents has approved this project, and it is scheduled for review by the Council on Postsecondary Education at its September 27 meeting.

Senator Jackson made a motion to approve the MuSU Development and Alumni Affairs Building Renovation project contingent upon approval by the Council on Postsecondary Education at its September 27 meeting. The motion was seconded and passed by voice vote.

Chairman Haydon called on Mr. Ken Clevidence, Senior Director of Procurement and Construction, University of Kentucky (UK), to report on three University projects. Mr. Clevidence first introduced Mr. Dall Clark, Associate Director, UK Capital Construction Division. The first project Mr. Clevidence discussed was a \$1,000,000 unbudgeted project to renovate the Joe B. Hall Wildcat Lodge. The renovation project will be paid for with a \$500,000 private donation and with \$500,000 from restricted funds; this renovation will require no additional operating and maintenance funds. Mr. Clevidence said the Committee also agreed to review this project contingent upon review and approval by the Council on Postsecondary Education at its September 27 meeting.

Representative Damron made a motion to approve the Wildcat Lodge Renovation project contingent upon approval by the Council on Postsecondary Education at its September 27 meeting. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Clevidence then discussed a plan by the University to combine four projects. The Aging/Allied Health Building Phase II (\$33,000,000) will be combined with the Utility System Upgrade III (\$1,500,000), Cooling #3 to Lime Chilled Water Pipe (\$1,800,000), and Rose Street Steam Line Expansion (\$700,000). In response to a question from Chairman Haydon, Mr. Clevidence said the projects are being consolidated for reasons of efficiency and better coordination.

Chairman Haydon said no further action by the Committee was required for this item.

The last item Mr. Clevidence discussed was a lease modification report for Lexington Community College (PR-8068). He said there had been no renovations to this rental property since the lease was established in August 1990. The facility will be painted at a cost to the University of \$13,946.

Chairman Haydon said leasehold improvements of less than \$50,000 are to be reported to the Committee within 30 days of execution. No further action is required.

Chairman Haydon then introduced Ms. Camille Bathurst, Legal Council, Kentucky Lottery Corporation (KLC), to discuss KLC's proposal to lease/purchase new instant ticket validation equipment.

Ms. Bathurst first introduced Mr. Michael Denney, Contract Administrator and Compliance Coordinator, KLC, and Ms. Sue Johnson, Instant Product Manager, KLC. She said KLC is seeking approval to lease new instant ticket validation equipment, known as the Sci Scan 2000 Validation Terminals, from KLC's current instant ticket vendor Scientific Games, Inc. The Sci Scan 2000 will be used to validate tickets for KLC's newest product, a probability game, using instant scratch off tickets. Ms. Bathurst said current equipment used for traditional instant scratch off games validates and recognizes winning tickets by reading the barcode printed on the tickets. With KLC's new game, however, it is impossible for a barcode reader to determine whether or not the ticket is a winning ticket.

Ms. Bathurst said the winning or non-winning status of the new probability ticket is determined by how the player scratches the ticket. This is proprietary technology, and the only equipment available to validate these tickets is the Sci Scan 2000.

Ms. Bathurst said KLC is proposing to lease 1,000 Sci Scan 2000 Validation Terminals at a per unit cost of \$209 per month for a period of 31 months commencing in March 2000 for a total cost of \$6,479,000. Scientific Games will be responsible for any repairs to the terminals and will supply a host computer system and a telecommunications network; KLC will be responsible for routine maintenance to the terminals. At the end of the lease term, KLC will be able to purchase the equipment for a nominal price. Ms. Bathurst said the anticipated lease payments for the current fiscal year will not exceed \$836,000, which is within the amount included in KLC's authorized capital budget for the current biennium. Payments after June 30, 2000, will be made contingent upon authorization by the 2000 General Assembly.

Senator Leeper asked if KLC is currently selling probability game tickets. Ms. Bathurst said KLC has done a small market acceptability test of the probability tickets and found that customers and retailers were quite excited by the concept. Ms. Johnson added that in March of this year KLC tested this product line in forty retailer locations in Louisville, Lexington, Frankfort, and Northern Kentucky.

Senator Leeper said this kind of game appears to take the lottery to another level. He asked if this was an entirely new type of game for KLC. Ms. Bathurst said this game is simply a different style of an instant scratch off ticket. She added that there is no skill involved in the game, and there is no set method for winning; it is simply random choice. Senator Leeper said he was concerned about the new game. He said there is a possibility that some lottery game players may think there is a sure method to winning the game.

Representative Marcotte asked what the terms of the initial contract are. Ms. Bathurst said the contract has a term of 31 months, and it will have the usual 30-day provision to cancel, although a penalty payment would be applied for cancellation.

In response to a question from Senator Buford, Ms. Bathurst said a cleaning card is needed for routine maintenance of the equipment; the card has to be put through the reading mechanism to wipe off the latex cover. Ms. Bathurst said KLC has a number of machine repair technicians who will be trained in the routine maintenance of this new piece of equipment.

Senator Buford said he would like to know the purchase price of the Sci Scan 2000 before approving the lease. Ms. Bathurst said KLC did not negotiate a straight purchase of the equipment, but a lease/purchase. She said Scientific Games is the only company that has the equipment; they are the only ones who are presently in a state of development even to offer a test piece of equipment. Senator Buford said if that is the case, he would be concerned about doing business with Scientific Games, since there is no other competition in the market.

Senator Buford asked if KLC can, under current law, place video lottery terminals at racetracks. (He said he believed KLC had such authority.) Ms. Bathurst noted that Senator Buford had asked the Attorney General the same question, and the Attorney General has requested KLC, in addition to other interested parties, to offer opinions on this subject. She said she also believes KLC can place video lottery terminals at racetracks.

Noting the concerns and questions about the purchase, Chairman Haydon said he was recommending that the project be tabled until next month's meeting. He asked Ms. Bathurst if that would be acceptable to KLC. She said they would accommodate the Committee in the matter. At Ms. Bathurst's request, Chairman Haydon directed the Committee's staff to consult with members and send Ms. Bathurst a list of questions members would like answered at the next meeting.

Chairman Haydon then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss seven projects submitted by the Finance and Administration Cabinet.

Mr. Hintze first reported an allocation of \$50,000 from the Emergency Repair, Maintenance, and Replacement Account for the Jefferson Davis Monument Repair project. The revised project scope is \$625,000.

Chairman Haydon said allocations from the Emergency Account must be reported to the Committee within 30 days of allocation, but no action is required.

Mr. Hintze then reported two allocations from the Capital Construction and Equipment Purchase Contingency Account to address cost overruns. The first allocation, for \$101,800, was for the Jefferson Davis Visitors Center. The second allocation, for \$108,400, was for a Primary Electric Line Renovation project at the Kentucky Horse Park.

Next, Mr. Hintze discussed scope increases for two other projects. The first project was the Equine Science Teaching Facility project at Western Kentucky University. A scope increase of \$37,000 will be covered by the University with restricted agency funds from the Equine Revolving Trust Fund.

The next project Mr. Hintze discussed was a scope increase for the Public Service Commission (PSC) Office Building project. The PSC has requested increasing the scope of the project, currently \$6,550,000, by \$393,000 (6%) in order to cover additional wiring, furnishings, and equipment. He said the source of funds for the scope increase was technically General Funds. He explained that the PSC, unlike any other state agency, derives its total income from levies on utility companies through a millage assessment established in the Executive Budget. Those funds are technically considered General Funds, but are available only to the PSC and do not lapse.

Representative Damron suggested delaying action on the PSC project until the end of the Finance report, and made a motion to approve the two allocations from the Contingency Account (the Jefferson Davis Visitors Center and the Kentucky Horse Park), and the scope increase for the WKU Equine Science Teaching Facility. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scopes are \$780,900 for the Jefferson Davis Visitors Center; \$108,400 for the Kentucky Horse Park Primary Line Renovation project; and \$617,000 for the WKU Equine Science Teaching Facility project.

Mr. Hintze reported an unbudgeted, federally-funded project for the Department of Juvenile Justice. The Department plans to construct two multi-purpose buildings, one at the Morehead Youth Development Center and one at the Green River Youth Development Center, at a total project scope of \$1,000,000. The project will be covered with \$600,000 in federal funds from the Juvenile Accountability and Incentive Block Grant and with \$400,000 from the Department's Maintenance Pool.

Senator Buford made a motion to approve the two multi-purpose buildings for the Department of Juvenile Justice. Chairman Haydon suggested the motion be amended to include a statement Secretary McCarty also included in his action on the project: "that approval action involving use of maintenance funds for an unbudgeted project should not be taken as a precedent to be used in the future". Senator Buford agreed to amend his motion; it was seconded by Representative Damron and passed by voice vote.

The final project Mr. Hintze discussed was an unbudgeted project for the Department of Corrections. At a cost of \$2,429,471 (\$2,186,524 in federal funds and \$242,947 in agency funds), the Department plans to renovate the old hospital at Northpoint Training Center in Boyle County. Mr. Hintze said the funds will cover Phase I of the project, which includes asbestos abatement, new roof, new windows, and exterior work.

Senator Buford made a motion to approve the Department of Corrections' Old Hospital Renovation project at Northpoint Training Center. The motion was seconded and passed by voice vote.

Next, Chairman Haydon opened the floor for discussion regarding the PSC Office Building project, which Representative Damron had earlier asked to delay.

Representative Damron said he was concerned about voting for the PSC scope increase with the anger that exists in his district regarding the PSC's recent decision to change the area code for certain residents in the 606 calling area. He said he has had more calls against this one issue than any other since the 1998 General Assembly. Representative Marcotte said he shared Representative Damron's feelings. He said the PSC's decision to change the area code has had considerable economic consequences, and there is a lot of unhappiness over the decision in Northern Kentucky. Senator Buford said he and other legislators in the affected districts have been totally ignored by the PSC. He said the decision to change the 606 area code was political, but the losers will be the individuals and businesses living in the affected districts.

Senator Jackson made a motion to approve the scope increase for the PSC Office Building project. The motion was seconded by Senator Leeper and passed by voice vote.

Chairman Haydon then introduced Mr. Jim Abbott, Director, Division of Real Properties, to report on state agency lease contracts approved by the Finance and Administration Cabinet. Mr. Abbott first reported on a new lease agreement with an annual rent exceeding \$100,000 (PR-4377 - Public Protection and Regulation Cabinet). The annual cost of the lease will be \$136,679.

Representative Damron made a motion to approve the new lease contract for the Public Protection and Regulation Cabinet. The motion was seconded by Senator Buford and passed by voice vote.

Next, Mr. Abbott reported the Finance Cabinet's approval of seven lease contract renewals exceeding \$100,000. He said in each case, the lessor was seeking rate increases and each lease was competitively bid pursuant to KRS 56.803. The lease contracts were

awarded to the existing lessor and include: Natural Resources & Environmental Protection Cabinet (PR-3231); Department of Information Systems (PR-3463); Department of Agriculture (PR-3482); Department for Local Government (PR-3657); Department of Public Advocacy (PR-3764); Personnel Cabinet (PR-3876); and Department of Insurance (PR-3960). Mr. Abbott said the seven lease agreements represent an average 2.5% annual increase over their term. Mr. Abbott noted the annual cost for the Department of Agriculture lease (PR-3482), before the rental rate increase, was below the \$200,000 annual statutory threshold and did not require General Assembly authorization. He said in accordance current statutes, the Cabinet is seeking an emergency declaration from the Governor to authorize this lease since it is now in excess of \$200,000.

Senator Jackson made a motion to approve the seven lease renewal contracts. The motion was seconded by Representative Marcotte and passed by voice vote.

Lastly, Mr. Abbott reported two lease modifications for leased properties located in Franklin County: the Revenue Cabinet (PR-3882) and the Finance Cabinet, Department of Information Systems (PR-3947). Mr. Abbott said for both leases, additional improvements are being made to accommodate the using agencies and will be amortized over the remaining term of the lease.

Chairman Haydon said leasehold improvements of less than \$50,000 are to be reported to the Committee, but no action is required.

Next, Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented three new bond issue reports: Kentucky Housing Corporation Revenue Bonds, 1999 Series G, H, and I (\$90,000,000); Kentucky Infrastructure Authority (KIA) Drinking Water Revolving Fund Program Revenue Bonds, 1999 Series A (\$4,833,710); and KIA Wastewater Revolving Fund Program Revenue Bonds, 1999 Series F (\$3,426,407).

Senator Jackson made a motion to approve the three new bond issue reports. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Howard then presented three follow-up letters for previously approved bond issues: Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Second Series A (\$135,000,000); Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 64 (\$125,455,000); and Kentucky Housing Corporation Housing Revenue Bonds, 1999 Series D, E & F (\$40,000,000). Chairman Haydon said no action is required on these follow-up reports.

The final item Mr. Howard presented was two new School Facilities Construction Commission (SFCC) bond issues for Dawson Springs Independent (Hopkins Co.) and Harlan County, neither of which required a tax increase.

Senator Jackson made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Senator Buford and passed by voice vote. Because of a possible conflict of interest, Representative Damron abstained from the vote.

Chairman Haydon said there was one locally funded school bond issue submitted to the Committee for review this month for Ohio County. He said no further action on this bond issue was required.

Next, Ms. Marilyn Eaton-Thomas, KIA, discussed new KIA projects: 1) a \$279,000 Fund A loan for the city of Morehead; 2) an \$871,709 Fund A loan for the city of Hopkinsville; and 3) a \$600,000 Fund B loan for the Gallatin County Water District.

Senator Buford made a motion to approve the KIA projects for the cities of Morehead and Hopkinsville, and the Gallatin County Water District, Kentucky Speedway. The motion was seconded and passed by voice vote.

Ms. Eaton-Thomas then reported on a \$3,000,000 KIA Fund B1 Infrastructure Revolving Grant Fund grant for the city of Hindman in Knott County. Chairman Haydon said no further action was required by the Committee on this item since it was specifically authorized by the 1998 General Assembly.

The remaining three KIA projects Ms. Eaton-Thomas reported were: 1) a \$189,500 increase in a Fund C loan for the city of Louisa; 2) a \$149,040 Fund E loan for Johnson County Fiscal Court; and 3) a \$5,500 Fund E loan for Robertson County.

Senator Buford made a motion to approve the three KIA projects. The motion was seconded by Senator Jackson and passed by voice vote.

The last item Ms. Eaton-Thomas discussed was a request by the city of Shelbyville and Shelby County to assume the outstanding KIA loans (\$1,771,612) for Sanitation District No. 1 of Shelby County. She said Shelby County has formed a municipal water and sewer commission that will serve both the city and the county.

Chairman Haydon said this is an information item and no further action is required.

Representative Marcotte said he was on the prevailing side on the vote taken to approve the cost overrun on the PSC Office Building, and he moved to reconsider the vote. The motion was seconded by Senator Buford and passed on a roll call vote with Senator Buford and Representatives Damron and Marcotte voting in favor of the motion and Chairman Haydon and Senator Jackson voting against the motion.

Senator Jackson made a motion to table the PSC Office Building project until the Committee's October meeting. The motion was not seconded.

Senator Buford said Secretary McCarty can override the Committee's vote on this item, but by approving the scope increase, the Committee is approving an increase in utility assessments, and for this reason, he was not inclined to approve the item at this time. He added that this also sends a message to the PSC that some members are concerned about the recent decision on the 606 area code change.

Mr. Hintze said he understood the sentiment Senator Buford expressed, but the PSC will not do new assessments to cover the cost of the wiring, furniture or the other items since money was collected under the utility assessment last year is available. He said, as Senator Buford stated, the Finance Cabinet does have the legal authority to override a "no" vote by the Committee, but has always been reluctant to do so. The Cabinet would not automatically override, but would give the matter serious consideration. Mr. Hintze said Commissioner Russ has advised him that the building is nearly complete, and the PSC is facing pressure to have the building ready to occupy.

Representative Damron said his vote on the issue is a heartfelt vote because of the effect the PSC 606 area code decision will have on his district.

Senator Buford made a motion to not approve the proposed scope increase for the PSC Office Building project at this time. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Haydon said the next Committee meeting is scheduled for October 19, 1999 at 1:00 p.m. in Room 125 of the Capitol Annex.

With there being no further business, Senator Jackson made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 3:15 PM.